

BikeExchange

Riding the e-commerce cycle

SPECULATIVE BUY

Current price:	A\$0.255
Target price:	A\$0.34
Previous target:	A\$
Up/downside:	33.3%
Reuters:	BEX.AX
Bloomberg:	BEX AU
Market cap:	US\$57.77m
	A\$74.71m
Average daily turnover:	US\$0.27m
	A\$0.35m
Current shares o/s	302.1m
Free float:	54.0%

Key changes in this note

NA



Price performance	1M	3M	12M
Absolute (%)	4.1		
Relative (%)	5.5		

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– N/A

- Whilst admittedly early days, we see a lot of potential in the BEX platform.
- The move to a 'Classifieds 2.0' model, in which BEX combines a traditional classifieds business with e-commerce enablement for their retailer base, opens up a much larger TAM, in a retailer base that by and large highly values the service.
- BEX has been laying the foundations for a global platform for a number of years, with impressive site traffic globally. We believe this global network is poised for significant growth.
- We initiate coverage on BEX with a Speculative Buy given the fledgling nature of the current business model (as opposed to the company in general) with a 34c price target (+33% upside to current price).

Introducing BikeExchange – A unique play on global e-commerce in cycling niche

Founded in 2007, BikeExchange (BEX) is an online marketplace for the cycling industry, connecting consumers with specialty retailers. The platform operates in 4 regions and 8 countries, annualising at 29.1m visitations to the websites globally. The platform enables specialty cycle retailers to provide a more encompassing omni-channel experience than they would otherwise have the resources to provide.

Global platform established; Australian business shows potential

With BEX's share of addressable retailers under 10% in Europe and North America (versus +70% for the Australian business), we see vast potential for BEX to increase penetration of these markets, having been in these regions for 5+ years now and establishing a solid foundation (including impressive visitation to the websites). BEX is focused on quality retailer additions, with recent partnerships and sales team additions to drive this. In turn, this will improve consumer utility on the sites (product depth, range and convenience) driving increased e-commerce penetration.

E-commerce to be the main value driver – conversion of leads key

BEX's e-commerce strategy is to us the key value driver of the business going forward. We believe BEX to be well placed to enable specialty cycling retailers to enter the e-commerce space, with a large, engaged traffic base that is annualising ~A\$1.5bn of sales leads into retailers at present. Converting even a small fraction of these leads to sales via the platform represents a large opportunity to transform BEX's revenue base.

Initiate coverage with a Speculative Buy rating and \$0.34 PT

We see BEX as being on the cusp of significant topline growth, with the foundations in place and capital from the IPO allowing the company to reinvigorate retailer additions and e-commerce conversion improvement. We see BEX as being a highly cash generative business at scale. Our Speculative Buy rating is predicated on the fledgling nature of e-commerce enablement for retailers, but we believe there to be an inherent need for a platform like BEX for specialty retailers, with a recently conducted perception study of Australian retailers backing this thesis.

Financial Summary	Jun-19A	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	3.94	3.67	4.86	7.22	10.63
Operating EBITDA (A\$m)	-3.90	-2.45	-3.53	-2.91	-1.84
Net Profit (A\$m)	-6.16	-3.54	-4.03	-3.41	-2.52
Normalised EPS (A\$)	(0.015)	(0.010)	(0.013)	(0.011)	(0.008)
Normalised EPS Growth		(36.0%)	34.4%	(15.4%)	(26.1%)
FD Normalised P/E (x)	NA	NA	NA	NA	NA
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	NA
P/FCFE (x)	139	217	NA	NA	2,126
Net Gearing		(115%)	(128%)	(156%)	(220%)
P/BV (x)	NA	4.27	5.81	8.11	11.80
ROE		(33.2%)	(26.2%)	(30.0%)	(31.4%)
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)					

SOURCE: MORGANS, COMPANY REPORTS

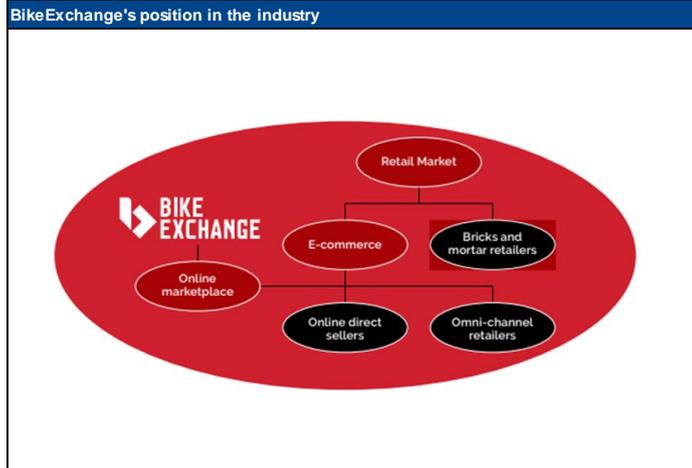
BikeExchange

as at March 16, 2021

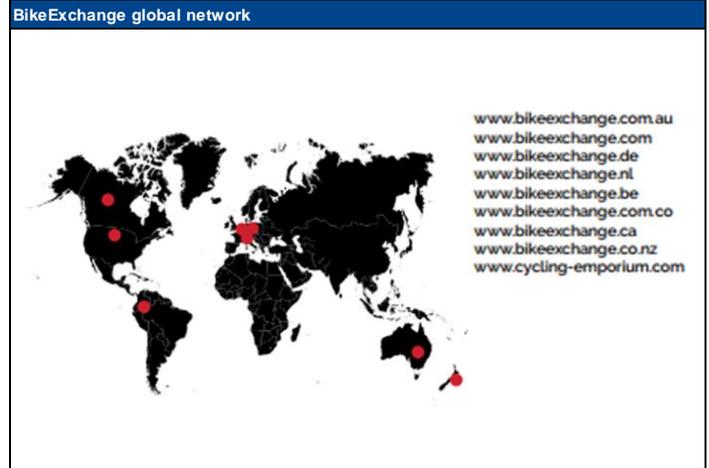
Market cap (A\$m):	74.71	Rating:	SPECULATIVE BUY
Shares outstanding (m):	302.1	Price (A\$):	0.255
Free float (%):	54.0	Target price (A\$):	0.34
Website:		Upside/downside to target price (%):	33.3

Company description

BikeExchange is an online marketplace operating across 8 countries within four geographical regions. The marketplace connects consumers and retailers of bicycle products and accessories. BikeExchange derives revenue from charging retailer's subscription fees to advertise their products on the site. The company is increasingly moving to facilitate the entire e-Commerce transaction on the site.



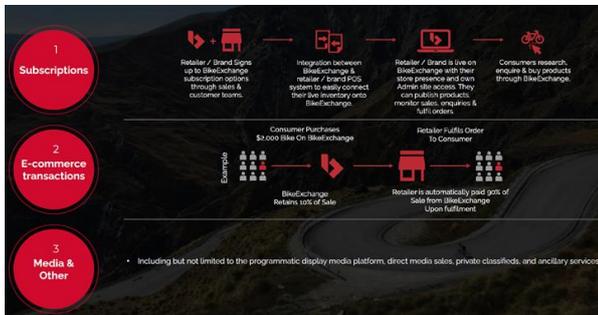
SOURCE: BEX Prosepctus



SOURCE: Company

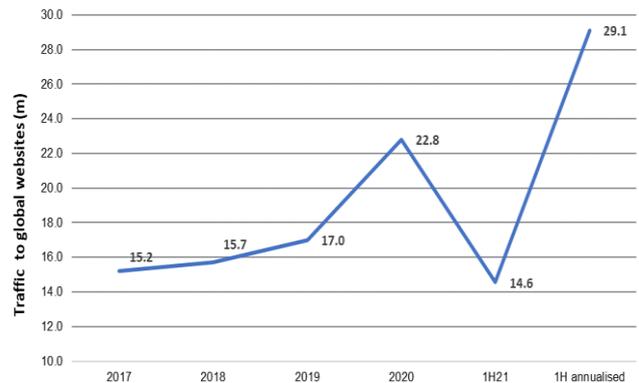
BikeExchange revenue model

At present BikeExchange derives revenue from the following sources;
Subscriptions: charged to cycle retailers to enable them to advertise their products on BEX's sites
E-commerce: A commission charged to sellers and some ancillary buyer fees to facilitate purchase of advertised goods online
Media/Other: sales of media inventory (banner ads, campaigns etc) and other ancillary revenue



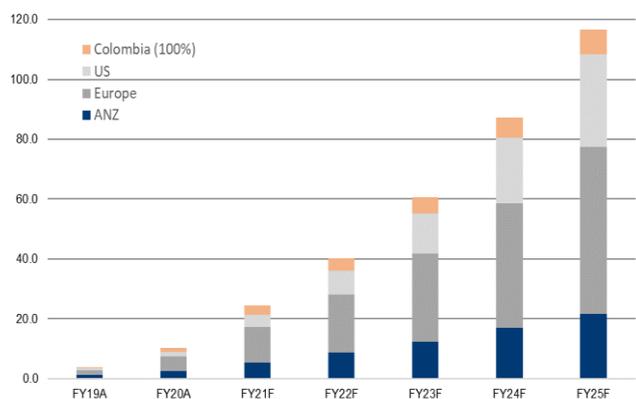
SOURCE: MORGANS, COMPANY

BikeExchange global website traffic since 2017



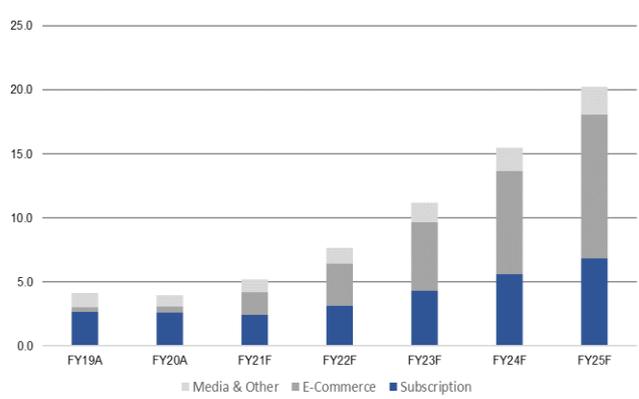
SOURCE: BEX PROSPECTUS (not attributed)

Historic/forecast e-commerce TTV by region (A\$m)



SOURCE: COMPANY, MORGANS ESTIMATES

Historic and forecast revenue by source



SOURCE: COMPANY, MORGANS ESTIMATES

Figure 1: Financial summary

ASX Code	BEX	Share Price	A\$	0.255							
Issued shares - diluted (m)	302	Recommendation:	SPECULATIVE BUY								
Market Capital (A\$m)	77	Valuation	0.34								
Net Debt / (Cash)	(20)	Price Target:	0.34								
Enterprise Value	57	TSR:	33.3%								
Key Financials											
	2019	2020	2021F	2022F	2023F						
Reported NPAT	A\$m	(6.2)	(3.5)	(4.0)	(3.4)	(2.5)					
Normalised NPAT	A\$m	(4.5)	(2.9)	(4.0)	(3.4)	(2.5)					
EPS - reported	¢	(2.1)	(1.2)	(1.3)	(1.1)	(0.8)					
EPS - normalised	¢	(1.5)	(1.0)	(1.4)	(1.1)	(0.8)					
EPS Growth	(%)		-42%	10%	-15%	-26%					
Dividend per share		-	-	-	-	-					
Payout Ratio		0%	0%	0%	0%	0%					
Franking		0%	0%	0%	0%	0%					
Pricing Multiples											
	2019	2020	2021F	2022F	2023F						
EV/TTV		7.6	4.4	2.2	1.3	0.9					
EV/Sales (excl JV)		14.5	15.5	11.7	7.9	5.4					
EV/Sales (incl JV)		14.3	14.4	10.9	7.4	5.1					
EV/GPAPA		18.5	17.2	15.8	10.2	6.6					
EV/EBITDA											
Normalised PER											
Price/CF											
Yield											
Growth rates (%)											
Revenue Growth			-7%	32%	49%	47%					
EBITDA Growth				44%	18%	37%					
EBIT Growth					10%	24%					
Margins (%)											
GPAPA margin		78.3%	90.2%	74.2%	77.4%	81.6%					
EBITDA margin		-99.2%	-66.7%	-72.7%	-40.2%	-17.3%					
EBIT margin		-107.2%	-77.3%	-80.8%	-48.7%	-25.1%					
Adj NPAT margin		-115.3%	-79.2%	-82.9%	-47.2%	-23.7%					
Efficiency											
Cash ROE			-33.2%	-26.2%	-30.0%	-31.4%					
FCF / Equity			-5.2%	-20.1%	-17.4%	0.6%					
ROIC											
Leverage											
Net Debt/debt+equity			-115%	-128%	-156%	-220%					
Valuation											
Methodology	Value PS	Weight	WVPS								
DCF	0.40	50.0%	0.20								
Multiples	0.28	50.0%	0.14								
			100.0%								0.34
Risk Free Rate			%		3.0%						
Equity Risk Premium			%		6.0%						
Beta					1.30						
Cost of Equity			%		10.8%						
Gearing Ratio			%		0%						
Cost of Debt			%		5.0%						
WACC			%		10.8%						
Terminal Growth Rate (Y10)			%		3.0%						
Normalised P&L											
	2019	2020	2021F	2022F	2023F						
TTV (A\$m) (incl 50% Col JV)		7.5	12.9	26.4	42.6	63.8					
Revenue by Source (A\$m)											
Subscription		2.7	2.6	2.4	3.1	4.3					
E-commerce		0.3	0.5	1.7	3.1	5.1					
Media		1.1	0.6	0.8	1.0	1.3					
Other (incl data)		(0.2)	(0.0)	-	-	-					
Total Revenues		3.9	3.7	4.9	7.2	10.6					
Paid Acquisition Costs/Mkting		(0.9)	(0.4)	(1.3)	(1.6)	(2.0)					
GPAPA (GM post PAC & Mkting)		3.1	3.3	3.6	5.6	8.7					
Operating Costs		(7.1)	(5.8)	(7.1)	(8.5)	(10.5)					
Other costs (Col JV)		0.1	0.0	-	-	-					
Operating EBITDA		(3.9)	(2.4)	(3.5)	(2.9)	(1.8)					
D&A		(0.3)	(0.4)	(0.4)	(0.6)	(0.8)					
EBIT		(4.2)	(2.8)	(3.9)	(3.5)	(2.7)					
Net Finance		(0.2)	(0.0)	(0.1)	0.0	0.0					
Share of JV/Other Income		(0.1)	(0.0)	0.0	0.1	0.1					
Minorities		-	-	-	-	-					
PBT		(4.5)	(2.9)	(4.0)	(3.4)	(2.5)					
Tax		-	-	-	-	-					
NPAT - adj		(4.5)	(2.9)	(4.0)	(3.4)	(2.5)					
Sig Items		(1.6)	(0.6)	-	-	-					
Reported NPAT		(6.2)	(3.5)	(4.0)	(3.4)	(2.5)					
Cash Flows											
	2019	2020	2021F	2022F	2023F						
EBITDA		(3.9)	(2.4)	(3.5)	(2.9)	(1.8)					
Interest paid		(0.2)	-	(0.1)	(0.1)	(0.1)					
Interest received		-	0.1	-	-	-					
Tax Paid		-	-	-	-	-					
WC change/Other		0.6	1.4	1.5	2.6	3.3					
Net Operating Cash Flow		(3.5)	(0.9)	(2.1)	(0.4)	1.4					
Capex		(0.0)	(0.0)	(0.6)	(1.2)	(1.3)					
Free Cash Flow		(3.5)	(0.9)	(2.7)	(1.7)	0.0					
Other investing cash flow		(0.1)	0.2	-	-	-					
Investing Cash Flow		(0.1)	0.2	(0.6)	(1.2)	(1.3)					
Financing Cash Flow		4.4	0.6	(0.5)	(0.5)	(0.5)					
Other (FX)		-	-	-	-	-					
Total Cash Flows		0.7	(0.1)	(3.2)	(2.1)	(0.5)					
Balance Sheet											
	2019	2020	2021F	2022F	2023F						
Cash		20.1	17.0	14.8	14.3						
Debtors		0.4	0.7	1.2	1.7						
Other ST Assets		0.0	0.0	0.1	0.1						
PPE		0.3	0.3	0.3	0.4						
Intangibles		-	0.2	0.8	1.3						
Other LT Assets		-	0.1	0.3	0.4						
Total Assets		20.8	18.3	17.4	18.2						
Borrowings		-	-	-	-						
Creditors		2.8	4.7	7.6	11.4						
Other Liabilities		0.5	0.3	0.3	0.4						
Total Liabilities		3.3	5.0	7.9	11.7						
Net Assets		17.5	13.3	9.5	6.5						
Company Contacts											
Chairman		Mr Gregg Taylor									
Chief Executive		Mr Mark Watkin									
CFO		Mr Andrew Demery									

SOURCE: MORGANS RESEARCH, COMPANY

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Executive summary

BikeExchange overview

BikeExchange (BEX or the company) was founded in Australia in 2007, and has since expanded operations into 4 regions and 7 additional countries. BEX operates online marketplaces that provide a platform to connect consumers with retailers of bicycle products and accessories. The global platform has 1,449 active retailers advertising and selling products on the site (@ 31 Dec 20), with a total of 14.55m website visits in the 6 months to 31 Dec 2020 (29.1m annualised).

Investment highlights - why own BikeExchange?

Global network with significant website visitation – BikeExchange has developed a global network that is somewhat of a rarity amongst domestically listed micro-caps. To this end, BikeExchange’s global network of websites received 22.8m visits in FY20 and ~14.55m in 1H21. This high level of website visitation was despite BikeExchange spending a rather paltry \$360k on marketing in FY20. With access to capital from the IPO, we expect BEX to significantly increase marketing spend, thus driving traffic and e-commerce penetration on site.

Significant opportunity to increase e-commerce revenue – by far the largest opportunity for BikeExchange lies in the company’s ability to move from a classifieds (mainly advertising business) to a fully integrated e-commerce provider. BikeExchange is well placed to enable a greater portion of e-commerce sales for their specialty retailer subscriber base, most of whom lack the scale and ability to attract traffic to dominate the online space. BEX is currently annualising ~A\$1.5bn of qualified leads into their retail partners, we detail the upside inherent in BEX being able to convert a growing portion of this lead generation to transactions on their site in the section entitled “BikeExchange Growth Strategies”.

Increasing retail subscriber accounts – The BikeExchange model is predicated upon enabling specialty cycling retailers to sell product (either via e-commerce enablement, or driving leads to the retailer for an in-store experience). Apart from Australia, we see BikeExchange as less than 10% penetrated of potential retailer customers. Increasing retailer subscribers will not only lead to subscription revenue growth, but will also add product depth, breadth and convenience to the retail offering, thus, in our minds, aiding e-commerce conversion of traffic. BikeExchange is currently engaging in capital light strategies (eg partnerships and selected headcount additions) to increase this retailer base, thus not significantly increasing retailer cost of acquisition.

Business model should be high margin and highly cash generative at maturity – A positive working capital model in the e-commerce revenue stream, and monthly subscription payments, combined with the outsourcing of the core platform maintenance and development (a variable cost) is likely to see BEX become a highly cash generative business as the company progresses towards a more mature earnings base (some way off at present).

Strategic acquisitions could accelerate BEX’s position – We see BEX well-funded for their organic growth aspirations and believe the recent IPO proceeds could be deployed for strategic acquisitions to accelerate both retailer and consumer traffic acquisition.

Experienced management team, founder remains on the Board – BEX has a highly experienced senior management team led by Mark Watkin (advertising market experience including MD positions) and former Carsales (CAR-ASX) CFO Andrew Demery. The Board also retains the knowledge and experience of co-founder Sam Salter, who remains a large holder (~9.7% of FD SOI) as does the other co-founder Jason Wyatt (~9.7% stake).

Industry

BikeExchange operates in the market for the sale of bicycles and related accessories. More specifically, BEX enables specialist retailers (a subsegment of the total bicycle retailer market that generally accounts for between 45-80% of the value of the industry) to become e-commerce enabled.

The bicycle market is generally experiencing good growth, spurred by government investment in cycling infrastructure, general health and wellbeing considerations and the increased usage of bicycles as a means of transportation. Additionally, the rise of e-bikes (with a higher average price point) is supportive of specialty retailers who generally over-index in e-bike sales.

1H21 trading performance

BEX generated 116% growth in lookthrough TTV on pcp in 1H21 (including 50% Colombia) with the focus on e-commerce seeing these revenues increase 325% and average commission rates improve from 5.5% to 7.8% in the period.

Total revenue growth of 17% (lookthrough basis) was impacted by lower subscriber numbers (especially in North America) as BEX looked to improve the quality of retailer subscribers and focus on retailers likely to enable the platform for e-commerce. Subscription revenue (51% of 1H total revenue) fell 18.4% on pcp.

Forecasts

We forecast strong revenue growth in FY21 (+32% vs 1H21 at 17%) led by continued strong growth in e-commerce revenue and a recovery in subscription revenue (+13% in 2H21 on 1H21) given a bottoming out in retailer churn and assumed retailer additions from a re-engaged sales effort and some of the strategic partnerships detailed later in this note.

We detail both our near term and longer term forecasts that underpin our DCF valuation in the Financials section of this report.

Valuation

We value BEX at \$0.34 using a blended DCF and multiples approach.

Our DCF uses a 10-year explicit forecast period and terminal value approach with a 10.8% WACC (1.3 beta) and 3.0% terminal growth rate. The relatively high beta is driven by the fledgling nature of the move to e-commerce, BEX's current loss making and free cash flow negative position, and the smaller size of BEX (market cap and revenue wise) versus the majority of e-commerce and subscription revenue based comparables listed on the ASX.

Our multiples valuation is a combination of:

- An EV/Revenue multiple of 8.75x FY22F revenue applied to the non-e-commerce revenue streams in the business (predominantly subscription revenue). The multiple used is an ~8% premium to a basket of ASX listed classifieds businesses.
- An EV/GPAPA multiple of 10.5x on FY22F gross profit after paid acquisition costs/marketing on the e-commerce revenue stream. This is a ~10% premium to domestic e-commerce players.

The slight premiums to comparable trading ranges (detailed in the Valuation section of this report) are in our view, justified by the superior revenue growth profile we forecast for BEX in the medium term.

The output of our blended valuation is shown below:

Figure 2: BikeExchange blended valuation

Valuation Method	Value (A\$ ps)	Weighting	\$ per share
DCF	0.40	50.0%	0.20
Multiples	0.28	50.0%	0.14
Equity Value per share			0.34

SOURCE: MORGANS RESEARCH, COMPANY

Company overview

BikeExchange was founded in 2007 in Australia and has since expanded their geographic reach to become one of the world's largest online cycling marketplaces, with operations encompassing 8 countries across 4 geographic hubs (ANZ, North America, Europe and LATAM). The platform connects consumers and cycle retailers (globally representing ~1,450 retailers of various sizes) with ~1,500 brands and over 600k products available for perusal. It is this breadth of retailer, brand and product choice that forms a key pillar of BikeExchange's consumer value proposition.

The key tenement of the BikeExchange business model is to enable specialty cycle retailers to provide an omni-channel experience to customers. BikeExchange either facilitates leads to the retailer for which the consumer can transact 'in-store' or increasingly can undertake part (via deposit taking) or all, of the purchase transaction online (e-commerce fulfilment).

The graphics below provide a quick view of:

- The genesis of BikeExchange (showing key events in BikeExchange's corporate history, including launch years of the various countries in which the company operates and traffic and retailer sign-up milestones);
- BikeExchange's current global operations profile and operating websites, and;
- The Australian landing page for BikeExchange for which the majority of regional websites are derived and modified according to country specific factors.

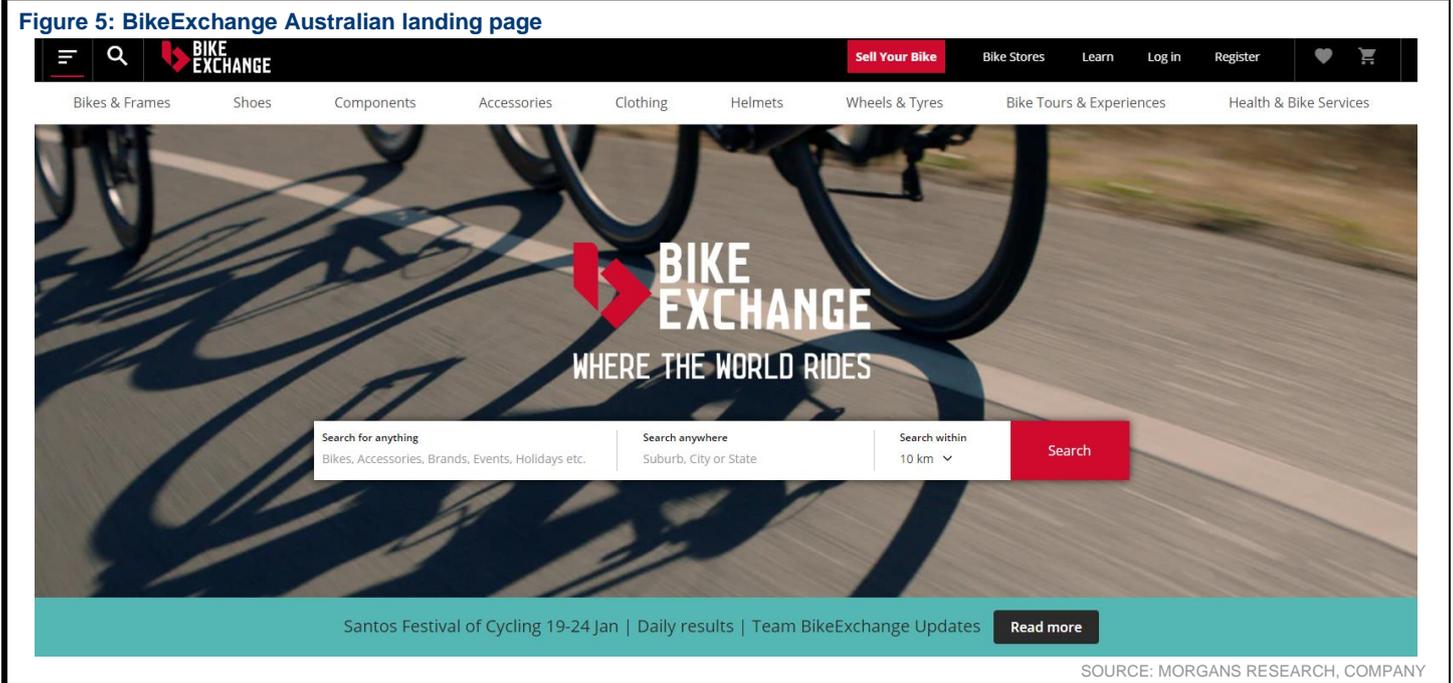
Figure 3: BikeExchange corporate timeline



Figure 4: BikeExchange global operations and websites



Figure 5: BikeExchange Australian landing page



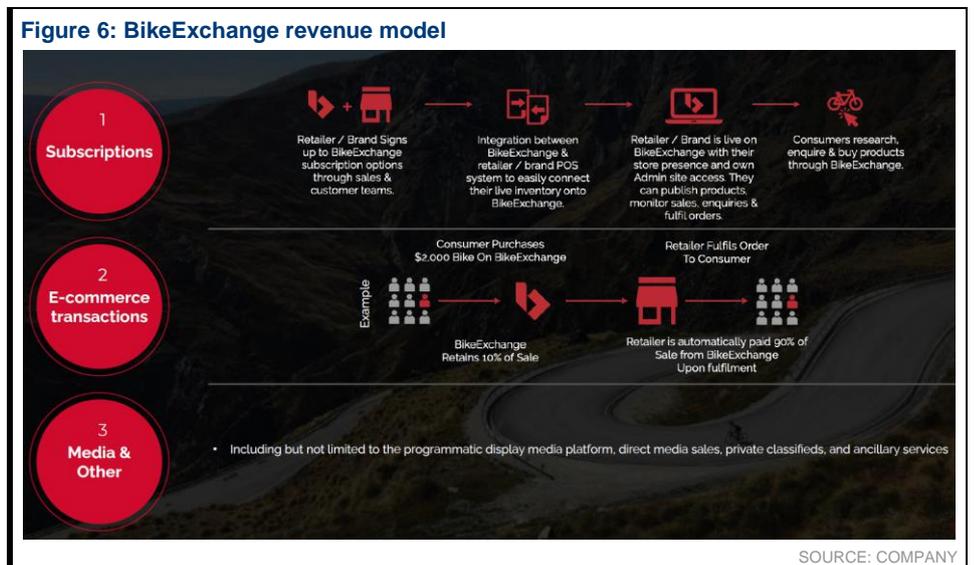
In the 6 months to December 2020, the BikeExchange network of sites saw a combined 14.55m visits, this was a 77% increase on the pcp and continued the strong visitation momentum seen in FY20 (22.8m visits, +34% on pcp).

BikeExchange revenue model

The BikeExchange model can best be described as ‘Classifieds 2.0’. At present the predominant source of revenue comes in the form of subscriptions charged to retailers to advertise on the site (70% of FY20 Revenue, 51% of 1H21). Over time, we believe the revenue derived from provision of e-commerce services to consumers will far outweigh that derived from subscriptions, to the point where we could one day envisage the charging for subscriptions to be removed, thus reducing retailer friction to advertise products for sale on the site (assuming all such products are enabled for e-commerce on the site).

BikeExchange’s current revenue streams are shown in the diagram below:

Figure 6: BikeExchange revenue model



Subscriptions

Revenue derived from cycling retailers and brands to advertise their products on the site, this provides a monthly recurring revenue stream.

- Fees to these business customers range from \$100 to \$5,000 per month, depending on the type of retailer, brand or tiering of service levels included in the subscription packages.
- As at 31 December 2020, BikeExchange had 1,449 active and paying subscription accounts.

Subscriptions enable retailers to administer, publish and maintain their product listings on the site, whilst also gaining access to customer enquiries and sales leads on their products. A subscription is also required to enable the retailers to manage transactions and fulfill orders through the platform (e-commerce enablement).

E-commerce

Involves BikeExchange facilitating the sale transaction on the site and then either having the retailer ship the goods in question or having the consumer collect the goods ('click and collect'). BikeExchange charges the retailer a commission on sales conducted through the platform (average commission of 7.8% in 1H21 for which we see upside, refer to discussion below).

BikeExchange has made the process of e-commerce enablement for retailers relatively simple through the development of a large number of integrations with POS systems throughout the world. These integrations allow for integrations of inventory management between the retailer and BikeExchange via Application Program Interfacing (API) ensuring stock availability and timely delivery to customers. The integration becomes automated post initial setup, allowing for timely updates and visibility on pricing and stock levels for the retailer.

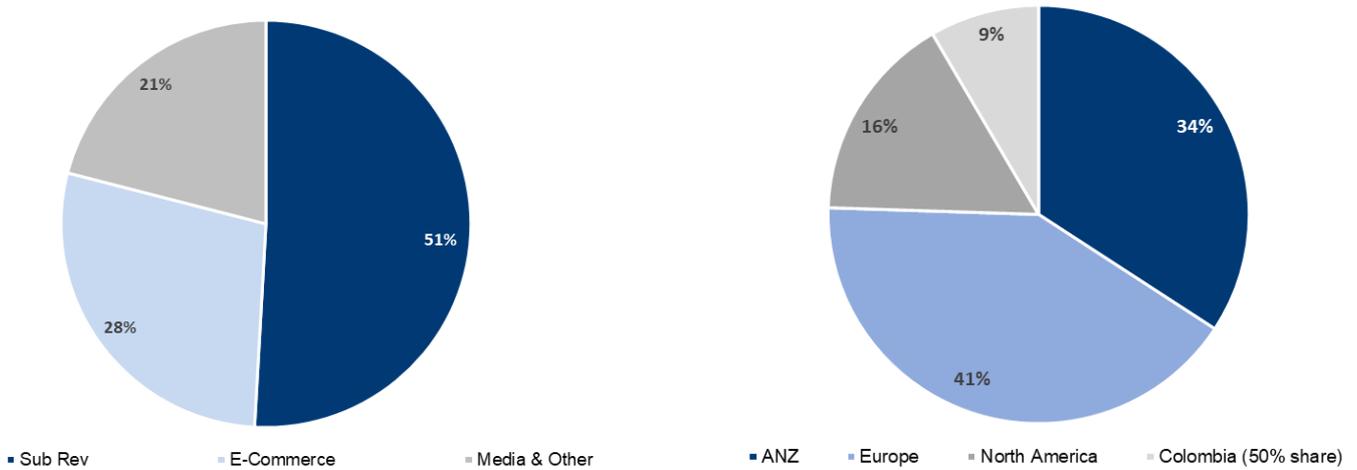
In the 1H'21 BikeExchange enabled ~24.5k e-commerce transactions (+154% on pcp) with an aggregate value of ~A\$10.0m in sales across the network.

Media and other revenue

In the main represents revenue generated from sales of media inventory (banner ads, content promotion or sponsorship etc). In addition, BikeExchange offers feature upgrades for product listings and other ancillary services. The company has in 1H20 implemented automated purchase and management of their digital advertising content on a programmatic display media platform.

The company is also looking to launch a data and insights product which they intend to monetise at some point. At this stage we do not incorporate an additional revenue stream from this product in our forecasts and feel it may end up being bundled into the subscription product, thus increasing average revenue per retailer for subscriptions.

Figure 7: BikeExchange revenue by revenue source and geography (1H21)



SOURCE: MORGANS RESEARCH, COMPANY

BikeExchange audience is large and growing

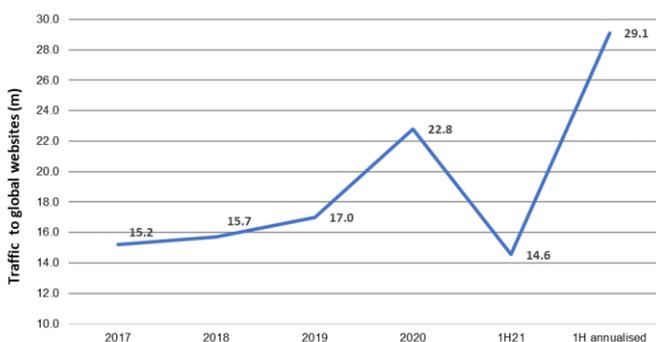
We see BikeExchange’s ability to attract a significant audience (as measured by site visitation) despite relatively modest marketing spend, as a key testament to the platform’s consumer appeal, and a key pillar of the company’s value proposition. BikeExchange’s websites attracted a total of 22.8m visits in FY20 (+35% on FY19). This visitation momentum was maintained in 1H21, with ~14.6m visits (+77% on 1H20). At present ~85% of BikeExchange’s traffic is organic, with product breadth, well optimised product and category pages as well as timely content reviews aiding to the ability to attract an audience to the sites.

Having been the first region with a presence, ANZ is well over-represented (versus market size) in the BikeExchange traffic profile (see Figure 9 below). It should however be noted that both Europe and North America are seeing traffic increases in excess of that seen in ANZ.

BEX engages in numerous other activities to attract consumer interest to the site, including the use of social media, key sponsorship arrangements (including being the name sponsor of the Mitchelton-Scott BikeExchange Pro Cycling team) selected above the line marketing, and paid marketing. It is the intention of the company to use received IPO funds to increase the level of paid marketing going forward, we believe this should attract a consumer more likely to avail themselves of the e-commerce opportunity on the site, and drive momentum in e-commerce.

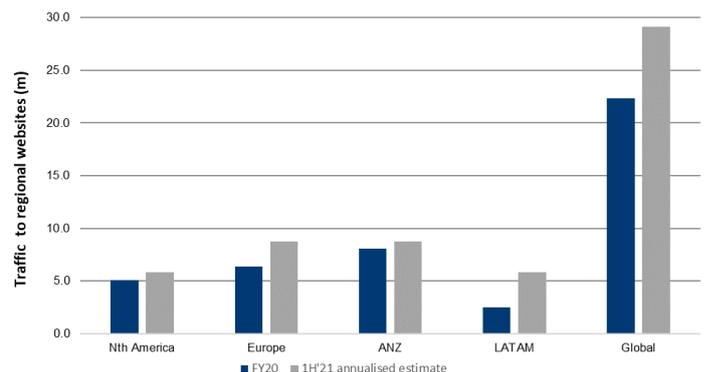
This large consumer traffic base both helps attract additional retailers to the site who can gain access to a large, qualified consumer audience (virtuous cycle) and lays the foundation for BikeExchange to increasingly monetise this traffic network through greater conversion of this traffic to e-commerce sales.

Figure 8: BEX global traffic to network (2017-1H21)



SOURCE: PROSPECTUS (not attributed)

Figure 9: BEX traffic by region (FY20, 1H21 annualised estimate)



SOURCE: MORGANS RESEARCH, COMPANY

Retailer perception study

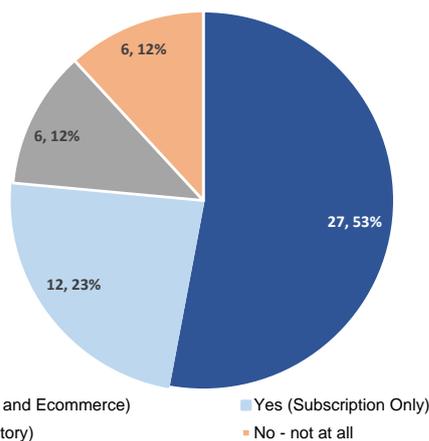
To gauge the perception and utilisation of the BikeExchange platform by retailers, Morgans conducted a phone-based survey of bike retailers in Australia. The survey included over 50 responses (51 to be exact) from specialty bike retailers throughout the country, chosen at random based on Google searches of random Australian post codes.

Use of BikeExchange in Australia

In a result that accords to the stated 70-75% share of independent retailers BikeExchange purports to have in Australia, we found 76% of our survey respondents used BikeExchange (excluding just a directory listing). Of the 76%, 70% of these retailers were enabled for e-commerce (so 55% of all respondents), with 30% still only being subscribers. To this degree, upside exists in converting the pure subscription retailers to e-commerce enablement.

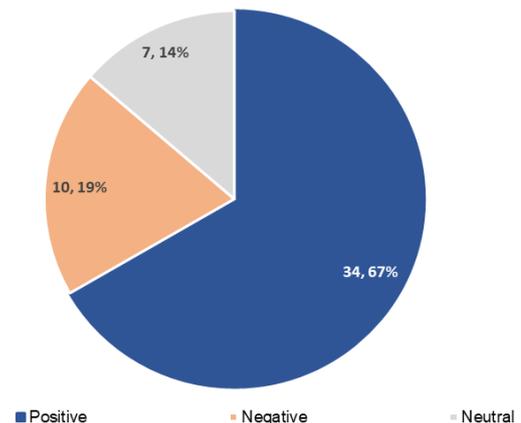
Of the ~24% of retailers who did not use BikeExchange, half of these were however listed on the BikeExchange directory, which currently has 670 stores from throughout the country listed with details around the store type, address and contact details. The directory listing is a prelude to a subscription service and eventual e-commerce enablement.

Figure 10: Retailer Survey – use of BikeExchange



SOURCE: MORGANS RESEARCH – SURVEY CONDUCTED FEB 2021

Figure 11: Retailer Survey – perception of BikeExchange



SOURCE: MORGANS RESEARCH – SURVEY CONDUCTED FEB 2021

Perception of BikeExchange

Overall, we deduce that the perception of the BikeExchange platform by retailers is generally favourable. As with any survey, opinions on the utility of the platform differ with some retailers stating their online presence is built entirely around BikeExchange and accrediting the site for between 40-70% of their leads and sales, whilst others report a low level of leads (down to a handful or ~5% of sales).

We would class roughly two-thirds of respondents as providing generally positive feedback on their use of and interaction with BikeExchange, 14% of respondents as 'neutral', whereby the gripes on the offering were equally balanced with the site's ability to generate sales leads, and almost one-fifth of respondents being firmly negative (it may not come as a surprise but the majority of negative responses coming from those who either don't use the service at all or are just on the Directory).

The figure below outlines the most common positive and negative responses generated from our survey. Some of the negative responses (such as inventory onboarding and product description errors) appear fixable with improved company bandwidth. The propensity of retailers to question the value proposition of BikeExchange or pricing structure was very low.

Another one of the more pleasing aspects of the survey (from a BEX standpoint anyway) was the lack of competitor or alternative online distribution methods from

the majority of survey respondents. The majority of respondents (even those who did not utilise BikeExchange) utilised only their own website and social marketing (including Instagram and Facebook) presence as an alternative online presence, not one mentioned using another platform provider (not to say this isn't the case).

All up, the cycle retailer survey we conducted provided confidence that domestic retailers (in the main) see the value BikeExchange brings to their businesses and gave us confidence that use of the site is likely to remain steady or increase in the future, rather than regress.

Figure 12: Most common positive and negative responses by retailers to the BikeExchange offering

Most common positive responses	Most common negative responses
<i>Good source of lead and enquiry generation (some 40-60% of leads from BE)</i>	<i>Logistically hard to onboard a large amount of product inventory, some brands restrict the type of product that can be advertised and enabled for e-commerce</i>
<i>Broadens the retailer's available market</i>	<i>A race to the bottom on pricing and some disingenuous pricing of stock by retailers</i>
<i>Enjoy having a 3rd party handle the transaction</i>	<i>Low quality leads – tyre kickers</i>
<i>The retailer's own website or online presence is not 'up to scratch' so BEX offers affordable online presence</i>	<i>Overwhelming to manage their own online presence and BikeExchange</i>
<i>Simplicity of use, design and POS integration</i>	<i>Some incorrect product and stock descriptions</i>

SOURCE: MORGANS RESEARCH – SURVEY CONDUCTED FEB 2021

BikeExchange's Technology Platform

The core of the BikeExchange technology platform is licensed from Marketplacer, a firm that provides technology-led platforms for various marketplaces. The core technology platform was created by Marketplacer specifically for the cycling category, with Marketplacer at that stage existing within the same company structure as BikeExchange, before being separated to allow Marketplacer to develop their offering for other customers.

The Marketplacer agreements (agreements based on country given the running of separate instances) each have a 5-year term, with automatic renewals for 24 months. BikeExchange does have the ability to terminate the agreement with 3 months' notice, should a more appealing option become available. The agreements generally involve a small fixed payment component and a variable component based on a percentage of revenue for non e-commerce revenue (~1% of revenue) and percentage of TTV for e-commerce revenues (~1% TTV). In this regard, BikeExchange has been able to mainly make variable their technology spend.

The mobile instance of the websites and associated Apps have been developed by BikeExchange, with the IP here accordingly owned by the company. To date, investment in these solutions has been somewhat limited, with BikeExchange looking to increase investment to provide greater consumer utility and control the consumer experience more so than previously. The 'headless' nature of the front-end architecture allows BEX flexibility to invest in this part of the offering without impacting the backend platform. We have modelled a ~\$3.1m investment in intangible capex over the next three financial years, mainly aimed at front-end user experience improvements.

Whilst not owning one's core technology platform outright generally invokes negative connotations, we see numerous benefits for BikeExchange in this arrangement;

- Most obviously is the lower initial cost and capex profile this arrangement entails. Accordingly, BEX's capex profile (especially intangibles spend) is greatly reduced versus technology comparables in the initial growth stage of the business. If we assume a steady state revenue profile for the business of 80% e-commerce/20% other revenue streams, the implied technology cost of

~8.2-8.5% of revenue (including fixed component) looks well placed versus larger domestic classified players who are currently spending ~7-8% of revenue on development capex (not including the expensed portion of this spend);

- The ability to receive wider functionality, feature updates and enhancements, with Marketplacer able to defray development costs over a much larger client base. Marketplacer is also able to take learnings from clients in a wider variety of industries and apply best practice principles to the development of their offering;
- We also see the agreement, which allows BEX to terminate with 3 months' notice if a more appealing platform technology provider can be found, as highly favourable to BEX.

Of course not owning the core technology platform does come with some downside (perceived or otherwise) including potential for conflict between BikeExchange's product roadmap and that of Marketplacer (we detail the risks around this relationship in the Risks section of our report).

BikeExchange's growth strategies

BikeExchange has a number of growth strategies that we feel will ensure a significantly improved growth profile from that seen historically. By far the largest opportunity of the group resides around further penetration of the e-commerce offering.

Increasing e-commerce penetration - conversion of leads

BikeExchange generated over 550k sales leads and enquiries in FY20, which represents a ~2.4% conversion rate of traffic to leads (22.8m global sessions on the site in FY20). In 1H21, BikeExchange generated ~\$750m of sales leads into their retailer partners (up 99% on pcp).

BikeExchange retains a good grasp of the leads it generates, having the ability to track email leads through the platform and the consumer needing to reveal the retailers phone number for phone-based leads. Whilst tracking phone-based leads is more problematic, BikeExchange has run attribution trials in which more than 95% of phone number reveals have led to a call to the retailer in question. Hence, we believe the leads coming through the BikeExchange platform to be highly qualified and of reasonable quality.

The 550k leads in FY20 represented ~A\$1.05bn of transaction value enquiry (~A\$1,900 worth of product per enquiry). This is well up on the A\$472 average order value (AOV) seen in 1H21 and shows the general propensity for leads to be on higher value goods as lower value product is often homogenous and does not require as much hand holding.

Eventually we believe the consumer will be willing to transact a much broader (and more expensive) array of product on the site as consumer trust in e-commerce providers continues to grow. This will also be aided by BEX initiatives such as the 'Concierge Service' in which BEX looks to take the consumer through the sales process, answering queries they may have. BEX has also commenced a partnership with Surge Global (third party supplier) trialling new performance marketing initiatives (re-targeting, abandoned cart targeting etc) to improve conversion rates.

Our understanding is that at present, the vast amount of e-commerce TTV involves BikeExchange collecting the full amount of the product sale (as opposed to taking a deposit for full payment to the retailer upon delivery or pick-up from store). We believe increased deposit taking will see a larger (and more expensive) product set transacted, and with the BEX commission likely to remain at the same level irrespective of a full sale or deposit, increased deposit penetration rates is another area of e-commerce revenue growth.

Below we highlight what we believe to be the largest single source of upside for the BikeExchange model, that is, improved conversion of current leads to retailers into full e-commerce transactions on the sites.

The table below shows that a 10% conversion of the \$1.5bn of current leads (annualised 1H21) at a 10% commission rate, would imply \$15m of e-commerce revenue (off \$150m of TTV). **This would be ~8x what we are currently forecasting for FY21 e-commerce revenue.** A 20% conversion rate would imply 17x our FY21 forecast. During limited trials run by BikeExchange of the concierge service and other conversion initiatives, conversion rates of ~20% have been seen. Given Amazon is said to have conversion rates around 6% this would appear farfetched, but it should be noted this conversion rate is conversion of qualified leads (ie the ~2.4% of traffic that actually sends leads through the site). **In this regard, a 20% lead conversion implies a ~0.5% conversion of actual traffic to the site.**

The tables below detail the potential e-commerce revenue stream from different conversion of leads percentages and commission rates, and the difference from our current FY21 e-commerce revenue forecast.

Figure 13: e-commerce revenue opportunity at various conversion and commission rates

		Conversion of Leads				
		2.5%	5.0%	10.0%	15.0%	20.0%
Commission Rate	8.0%	3.0	6.0	12.0	18.0	24.0
	8.5%	3.2	6.4	12.8	19.1	25.5
	9.0%	3.4	6.8	13.5	20.3	27.0
	9.5%	3.6	7.1	14.3	21.4	28.5
	10.0%	3.8	7.5	15.0	22.5	30.0
	10.5%	3.9	7.9	15.8	23.6	31.5
	11.0%	4.1	8.3	16.5	24.8	33.0

SOURCE: MORGANS RESEARCH, COMPANY

Figure 14: Difference to current FY21 e-commerce revenue forecast

		% difference to FY21F E-comm revenue				
		2.5%	5.0%	10.0%	15.0%	20.0%
Commission Rate	8.0%	80%	260%	621%	981%	1342%
	8.5%	91%	283%	666%	1049%	1432%
	9.0%	103%	305%	711%	1116%	1522%
	9.5%	114%	328%	756%	1184%	1612%
	10.0%	125%	351%	801%	1252%	1702%
	10.5%	137%	373%	846%	1319%	1792%
	11.0%	148%	396%	891%	1387%	1882%

SOURCE: MORGANS RESEARCH, COMPANY

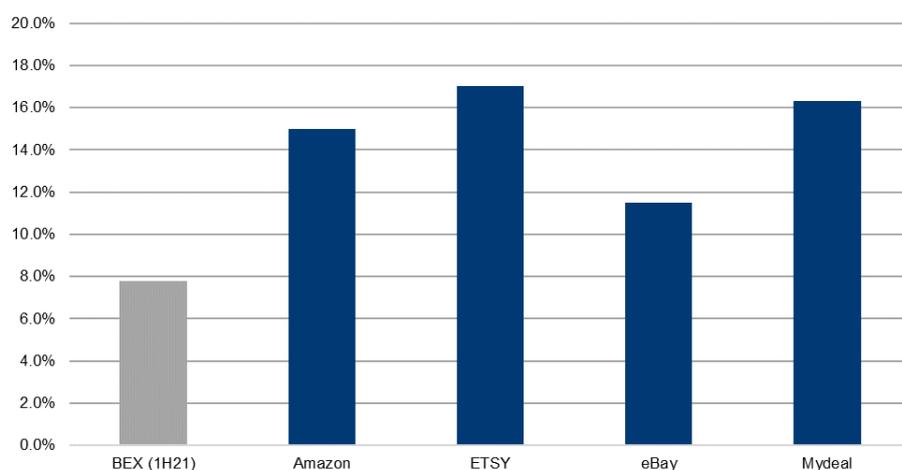
Upside to commission rates

We believe there to be meaningful upside to BikeExchange's current average commission rate of 7.8% in 1H21 (up 230bps from the 5.5% in pcp). In the medium term management believe they can move commission rates to 10% and we note this would still represent a lower take rate (which does include some contribution of buyers) than other product marketplaces (see Figure 15 below).

BikeExchange is in the process of deploying an enhanced commission module that will allow for differential commission rates across a retailers varying products (for example apparel with a higher gross margin is likely to have a higher commission rate than a pure bike sale). Previously a flat commission structure was employed at the retailer level. The change is intended to improve overall commission rates and the range of products a retailer will enable for e-commerce (eg may have been a reluctance to enable lower margin products previously).

Other factors that will improve commission rates are the changes BikeExchange has made to their retailer line-up, recent retailer additions having occurred at higher commission rates than the backbook has traditionally been on, and an ability to charge merchant fees.

We are confident in BikeExchange's ability to increase the overall take rate in e-commerce and do not believe this will hinder e-commerce penetration.

Figure 15: Take rate comparison for product marketplaces (% of order value)


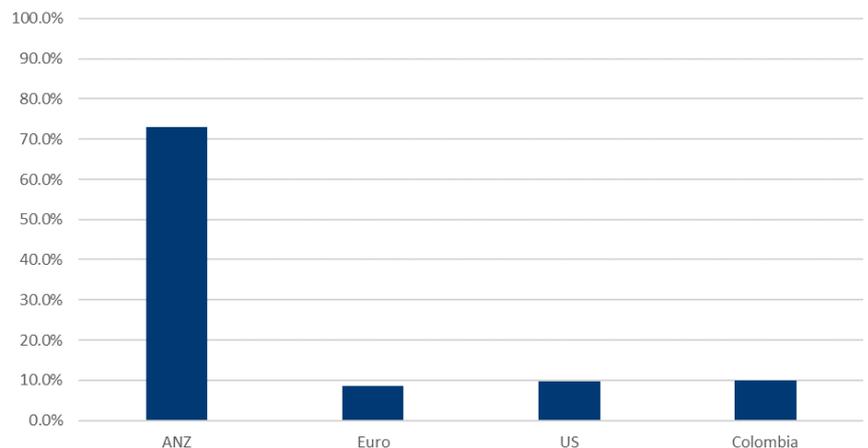
SOURCE: MORGANS RESEARCH, COMPANY

Adding retailers to the network

Upside exists in BikeExchange continuing to add quality retailers and brand accounts to their subscription product. We see the BikeExchange model of enabling specialty retail providers to provide a more encompassing omni-channel experience than they would likely be able to provide otherwise, as attractive to the retailers. BikeExchange has over the past couple of years focussed on the quality of their subscription base, purging lower quality retailers from the offering. In this regard, we believe BikeExchange to now be well placed to grow the network of retailers taking up their subscription offering and selling products via the site. This growth not only has the impact of increasing BEX subscription revenue, but also providing greater choice to consumers (which should itself increase satisfaction and traffic to the site – the virtuous circle at play).

The chart below shows BikeExchange's estimated penetration rates of the retailers available to advertise on their sites. As can be seen, Australia, with its long history and being the company's home market has ~70-75% of addressable retailers on the site (backed up by our retailer survey cited previously). The penetration of retail accounts in the other regions BikeExchange operates in is far lower, not breaking 10% in any other region (on a combined regional basis).

Figure 16: BEX estimated penetration of independent retailers in each geography



SOURCE: MORGANS RESEARCH, COMPANY

BikeExchange is highly focussed on increasing retailer adoption of their services, to this end recent initiatives are expected to drive increased retailer presence in the regions:

- A key partnership with Trek in North America (announced in September 2020) to enable Trek's dealer network of ~1,500 cycling stores to join the BikeExchange platform and sell specific model lines across the US. This deal effectively enables sales across state lines by the retailers, something that has previously been frowned upon within the Trek network.
- An agreement with Cyclesoftware, a provider of POS services to retailers in the Netherlands and Belgium. Cyclesoftware will look to actively promote BikeExchange as its preferred online marketplace provider to its ~1,200 retailer clients, and BikeExchange will promote Cyclesoftware. BEX will pay Cyclesoftware a connection fee for all new shop connections they provide during the term of the agreement.
- Strategic partnership with Auteco Group in Colombia (a Colombian motorcycle assembler and EV distributor, with over 700 points of sale) in which Auteco has invested into BEX by buying on market post listing. This agreement brings with it Auteco's brand relationships in the regions.

Despite the first two agreements only running until the end of CY21 (at present) we see them as a capital light and effective way to build out the retailer network in these regions.

Off the back of the Trek agreement (largest cycling brand globally) we believe further agreements and umbrella relationships with brands are likely. As stated previously, some brands currently restrict the type of product that can be advertised on a platform such as BikeExchange (inability to advertise the latest model being not uncommon). We see increasing brand acceptance of the BikeExchange value proposition as reducing this current impost on platform.

Geographic expansion / strategic acquisitions

The BikeExchange platform can be replicated in new markets in a capital light manner; accordingly future geographic expansion presents another growth option. We do not forecast any such expansion into our forecasts or valuation, with BikeExchange currently focussed on building out on the large opportunities ahead of them in their existing operational base.

BikeExchange has also flagged a willingness to consider strategic acquisitions, either within existing regions or as an entry into new markets. The recent ASX listing has given BEX greater flexibility to pursue such acquisitions. Given the current fragmented nature of the competitive dynamic in most of BEX's operating regions (see industry overview – competition below) acquisitions that add scale, consumer traffic and retailer representation are likely to be highly strategic in seeing BEX become a dominant player within region.

It should be noted that on our modelling BikeExchange is comfortably funded for organic growth, giving the company capital firepower for strategic acquisitions that could really accelerate a number of two key areas of focus being retailer and consumer traffic acquisition.

Industry overview – bicycle retailing

Bike retailing globally a large and growing market

The global market for bike retailing (including parts and accessories) was estimated at US\$60.3bn in 2019 (management estimate based on independent report) which is expected to grow to US\$80bn by 2026 (4.1% CAGR). Within this the e-bike category is experiencing strong growth, estimated to represent ~23% of the total market and forecast to grow at a 9.1% CAGR to US\$5.9bn by 2025. E-bikes are opening up bicycle use to a broader audience and their sale at present is more prevalent through specialty bike sellers (the key target market for BEX, which we will detail later).

Bike usage and ownership is being driven by a number of factors that we believe will see sustained growth in bicycle sales, these include:

- Greater usage of bicycles as a form of commute – especially in Europe the percentage of journeys taken by bike are high and continue to increase,
- Greater recognition of the health and environmental benefits of bike ownership and usage,
- Greater investment in cycling infrastructure by governments (especially in Australia and Europe) which increase utility for bike users, and
- Some government incentive schemes in certain geographies supporting bike usage – eg Belgium having a bicycle allowance for employees of businesses, the Netherlands offering interest free loans for e-bike purchases, discounted e-bikes in New Zealand for public sector employees and the US Congress currently considering a bill that will grant US\$1,500 tax credits for e-bike purchases.

Whilst drivers and incentives vary between regions, bicycle ownership is generally increasing worldwide with Covid also increasing the propensity for people to want an individual form of transport over traditional public transport methods.

Fragmented nature of bike retailing supports a marketplace model

BikeExchange's current focus is on representing specialty cycle retailers. Other players in the cycle retailing market include:

- Mass market retailers eg Kmart domestically, Walmart in the US
- Chain sporting goods – eg rebel, sportsmart domestically
- Outdoor specialty players – eg Anaconda

In the main, retailers fitting within the above categories are generally larger and have a more national presence within their geographies, thus according them greater scale to run their own successful e-commerce platforms, with the broader product range they offer also attracting increased traffic.

This focus on specialty retailers does reduce BikeExchange's addressable market opportunity to a degree, however, specialty retailers remain well represented in the cycle retailing markets. The dynamic often seen is that the mass market and other retailers cited above generally sell the majority of units in a country, with specialty retailers still accounting for the majority of sales value in most countries for which BikeExchange operates.

For example, mass market retailers are said to account for ~65% of Australian domestic cycle product sales (as per a Bicycle Industries Australia Interview), however this represents well under 50% of the total value of the Australian cycling market given the lower price point of these sales.

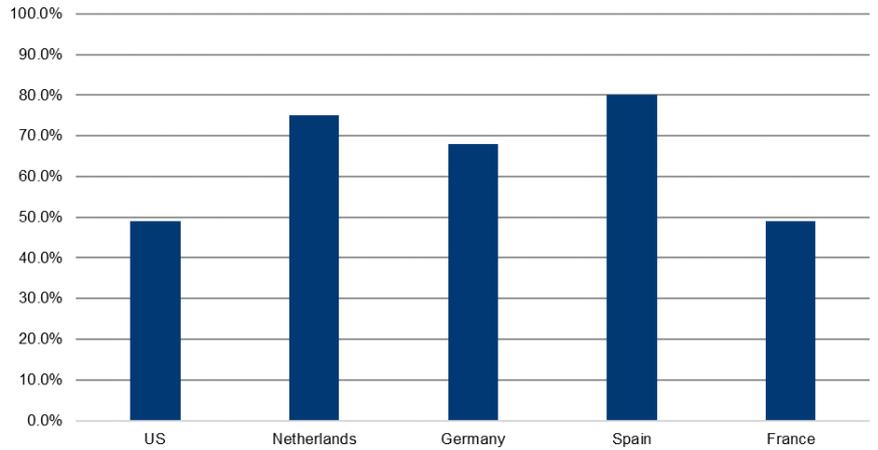
At present, specialty retailers are also responsible for the majority of e-bike sales, with the higher unit pricing and current need for greater consumer education around the differing models, lending itself to the service offering of specialty retailers. The anticipated growth in e-bike sales (both actual and as a proportion

of the total cycle market) is expected to help support current specialty retailer market share.

The chart below shows the estimated value of sales represented by specialty bike retailers in certain markets BikeExchange operates in. The clear contention here being that despite the full value of these markets not being available to BikeExchange, a large part remains in the hands of specialty retailers, for which BikeExchange can facilitate further growth in the future.

Further on in this report we detail our longer-term forecasts for BEX in the context of this addressable market (see Financials discussion).

Figure 17: Estimated % value of market represented by specialty bike retailers



SOURCE: Various sources contained in BEX prospectus
NOTE: Figures are from different time periods; US (2015) Netherlands (2020) Germany (2019) France (2018) Spain (2018)

Industry overview – competitive landscape

We see BikeExchange as primarily subject to two forms of competition, the first (which we have spoken about in the previous section) is the competition BikeExchange's target market incurs, that being the specialty cycle retailers. Despite increased competition for specialty retailers from the mass market, sporting and outdoor retailers, specialty providers have, in the main been able to hold a majority share of the value of the cycle market, with their greater range of product offering, specialised service offering and higher price point products (including e-bikes) helping maintain share.

The second form of competition the BikeExchange platforms face is from competing online marketplaces and other forms of online cycle selling in their operating countries. On the page overleaf (Figure 18) we have endeavoured to detail some of the competitor offerings in the key markets for which BikeExchange operates.

In the main, competitors in the online space have differing business models, whether they be omni-channel providers with an online presence supported by a larger retail store base, or direct sellers, providing products online that are owned and sourced directly by the site themselves (as opposed to BikeExchange's third party marketplace model).

As seen in our retailer perception study referenced previously, specialised cycling marketplaces are less common in BikeExchange's markets, thus we see the BikeExchange model of looking to support specialty retailers online and facilitate these retailers moving more of their business to e-commerce as a key strategic advantage. Of course, the retailers own online presence also represents a key source of competition. What these retailers lack however, is the large consumer traffic base that BikeExchange attracts, hence why in our perception study we saw a large portion of retailers using the BikeExchange platform attributing more than 50% of leads to this platform.

One competitor that appears to have some mass is Internetstores group which own at least three sites competing in Germany and the Netherlands. BikeExchange's consumer ratings (as proxied by Trustpilot ratings) are in general below that of the competitor average. Whilst some of this can be attributed to the marketplace nature of BikeExchange, in that delivery of the physical product relies on the retailer, it does appear an area in which BikeExchange can improve, with handling of customer complaints being seen as the most common gripe in the ratings.

Other forms of competition include the larger multi-national classifieds and social media players eg Ebay, Gumtree, Facebook marketplace. At present these sites are mainly concerned with the sale of second hand cycle goods and we believe BikeExchange can continue to carve out their niche in the cycling products market by being highly focussed on this market vertical, with a large product range and engaged audience, supported by cycling industry content and key sponsorships.

Figure 18: Overview of some competitors in BikeExchange markets

Site	Type of offering	Traffic (6mths to Jan'21) (m)	TrustPilot Rating	% Excellent/ Great reviews	% bad reviews	Comments
Australia						
bikeexchange.com.au	Online Marketplace	4.1	3.9	67%	22%	
99bikes.com.au	Omni-channel	8.7	4.4	86%	7%	Over 50 stores throughout Aust. 50% owned by Flight Centre and (~38% by Skroo and his son Matt). Did \$132m of revenue in FY19
pushys.com.au	Online direct/Omni	3.3	3.6	76%	24%	Wider product range, outdoors, apparel, shoes. Appears to have 1 store in ACT (and 2 Giant branded locations)
bicyclesonline.com.au	Online direct seller	2.9	3.4	59%	35%	Direct, expanding into private label. Founder owned
myride.com.au	Online direct/Omni	0.5	NA	NA	NA	~19 stores throughout Aust
Wiggle.com	Online direct seller	2.3	4.4	88%	4%	Multi-region player ships from UK
Germany						
bikeexchange.de	Online Marketplace	2.3	NA	NA		
fahrrad.de	Omni-channel	17.0	3.8	73%	20%	~40k items, 500 brands, part of Internetstores group - 40 online shops in 14 countries, B&M presence in Germany, Sweden and France
bike24.de	Online direct seller	11.2	4.3	86%	9%	Also offers products relating to running, swimming and outdoor activities
bruegelmann.de	Online direct seller	4.7	4.5	85%	11%	Large presence in Euro (13 countries incl UK), also owned by Internetstores
bike-angebot.de	Online Marketplace	1.2				Majority owned by Schuhe24 an online portal owner. Claims 1,100 dealers in network. Looking to expand beyond German market
Netherlands						
bikester.nl	Online direct seller	2.4	3.4	72%	14%	Another owned by Internetstores.
fietsenwinkel.nl	Omni-channel	2.4	3.4	80%	11%	e-bike specialist. Operates 12 stores
hollandbikeshop.com	Online direct seller	6.0	3.0	70%	22%	Operates Internationally
mantel.com	Omni-channel	12.3	4.7	96%	1%	3 superstores plus online presence
US						
bikeexchange.com	Online Marketplace	2.6	NA	NA		
jensonusa.com	Online direct/Omni	10.0	4.5	92%	4%	Operates 2 stores in California but mainly online, owned by founder
performancebike.com	Online direct seller	3.5	NA	NA		
bikesdirect.com	Online direct seller	5.1	3.8	67%	0%	Online for 20yrs, not the most sleek website design

Source: SimilarWeb, Trustpilot, company websites

Note: Traffic stats are sourced from SimilarWeb and do not correspond to traffic stats emanating from BikeExchange who generally use Google Analytics information

SOURCE: MORGANS RESEARCH, COMPANY

Financials

Profit and loss thoughts

Revenue – we forecast a revenue growth profile vastly superior to that for which BEX had delivered over the past few years. To this end our revenue growth is predicated in part on BEX now (post IPO capital raise) having the capital available to ramp business development and sales, thus significantly increasing average retail subscriber accounts:

- BEX has seen a reduction in subscriber accounts in the historic period as the company (in FY20) sought to focus on higher quality retailer accounts that would also drive e-commerce penetration. The focus on multi-store accounts has also optically lowered the subscriber numbers to a greater extent than has actually occurred at the store level (multi-store accounts counting as one subscription but obviously having the ability to generate significantly higher e-commerce TTV than a one store retailer)
- We assume an almost doubling of average subscriber accounts to FY23 (+843 accounts to just over 1,700) with reasonable success assumed in penetrating the Trek retailer base in North America (~1,500 retailers) and Cyclesoftware in Europe (~1,200) retailers, plus other potential brand partnerships driving retailer signings.
- We assume strong growth comes from the e-commerce side of the business, with the growth in retail subscribers leading to greater and more convenient (eg proximity) product choice for consumers, thus significantly improving conversion rates on the site, also assisted by initiatives such as the concierge service and other performance marketing initiatives (eg Surge Global relationship)
 - Note that despite the reductions in average retail subscribers from FY18, FY20A e-commerce TTV has grown at a 68% CAGR in the period (transactions 20% CAGR, AOV 40% CAGR).
- Accordingly we assume ~82% e-commerce TTV CAGR to FY23 (nb e-commerce transactions grew 154% in 1H21) with 120% revenue CAGR, driven by a ~8% CAGR in Average Order Value and an increase in commission rates from 7.8% in 1H21 to 9.4% in FY23, which remains below the ~10% commission target rate from management which is supported by commission rates contracted in recent retailer sign-ups.
- We do not attribute any revenue to the data & insights product or other potential products at present.

Costs – in line with the company's strategy to generate topline growth and amass scale, we see a significant ramp in BEX's cost base with ~22% CAGR in operating costs to FY23 and ~5.5x increase in advertising and marketing expense (from 9.8% of revenue in FY20 to 18.4% in FY23).

We see BEX as nearing EBITDA breakeven towards the back end of FY23, with a lot dependent on how hard the company chases the significant opportunity of monetising the large traffic base BikeExchange currently enjoys.

The reasonable increase in D&A is tied to increased intangibles capex (see below) with a 2.5 year useful assumed for intangibles spend.

Figure 19: BikeExchange PF historic and forecast P&L

(In A\$m, unless otherwise stated)	FY18A	FY19A	FY20A	1H21A	FY21F	FY22F	FY23F	FY18-20A CAGR	FY20A -23F CAGR
Average retail subscriber accounts (no)	943	1,002	863		982	1,277	1,706	-4.3%	25.5%
e-Commerce transactions (ex Col JV) (no)	14,572	13,542	20,954	15,600	43,826	71,858	100,570	19.9%	68.7%
e-Commerce TTV (ex Col JV)	3.2	3.7	9.1	7.4	21.0	35.7	54.7	67.5%	81.8%
Average order value (A\$)	223.0	275.0	436.0	472.0	480.1	496.2	544.1	39.8%	7.7%
Blended commission rate (e-Commerce) (%)		8.4%	5.3%	7.8%	7.9%	8.8%	9.4%		
Subscription revenue		2.68	2.57	1.13	2.40	3.10	4.26		18.4%
e-Commerce revenue		0.31	0.48	0.54	1.66	3.14	5.12		120.3%
Media		1.10	0.62	0.35	0.80	0.98	1.25		26.2%
Other (incl insights)		(0.15)	(0.00)	-	-	-	-		-100.0%
Total Revenue (ex Col JV)	3.91	3.94	3.67	2.02	4.86	7.22	10.63	-3.1%	42.5%
% <i>gwth</i>		0.7%	-6.8%	9.6%	32.4%	48.6%	47.2%		
Advertising & Marketing expense	(0.50)	(0.86)	(0.36)		(1.26)	(1.63)	(1.96)	-15.0%	76.1%
% of revenue	12.7%	21.7%	9.8%		25.8%	22.6%	18.4%		
GPAPA	3.41	3.08	3.31		3.60	5.59	8.67	-1.5%	37.8%
% margin	87.3%	78.3%	90.2%		74.2%	77.4%	81.6%		
Total operating costs	5.18	7.12	5.79		7.14	8.49	10.51	5.7%	22.0%
% of revenue	132.5%	180.8%	157.8%		146.9%	117.6%	98.9%		
Other income	-	0.14	0.03		-	-	-		
Operating EBITDA	(1.77)	(3.90)	(2.45)		(3.53)	(2.91)	(1.84)	-17.7%	9.1%
% margin	-45.2%	-99.2%	-66.7%		-72.7%	-40.2%	-17.3%		
D&A	(0.15)	(0.32)	(0.39)		(0.39)	(0.61)	(0.83)	-61.8%	28.6%
EBIT	(1.92)	(4.22)	(2.84)		(3.93)	(3.52)	(2.67)	-21.7%	2.0%
Net interest	(0.06)	(0.22)	(0.02)		(0.13)	0.04	0.02		
Share of income from JV's	(0.02)	(0.10)	(0.05)		0.02	0.07	0.13		
PBT	(2.00)	(4.54)	(2.91)		(4.03)	(3.41)	(2.52)	-20.6%	4.7%
Income tax benefit/(expense)	-	-	-		-	-	-		
NPAT	(2.00)	(4.54)	(2.91)		(4.03)	(3.41)	(2.52)	-20.6%	4.7%

SOURCE: MORGANS RESEARCH, COMPANY

Cash flow considerations

BEX should be a high cash conversion business, with a positive working capital model. Subscription revenue is paid towards the end of the month in question and e-commerce TTV has a positive working capital cycle, with funds taken from the consumer upon purchase of the goods in question, and remitted to the retailer (ex BEX's commission) upon delivery of the goods.

BEX also exhibits low capital expenditure, with third party ownership of the platform seeing very low development spend (comes through as operating costs into EBITDA). We do however anticipate a large increase in capex over the forecast period, with BEX utilising just over \$3m of the IPO funds to invest in the front-end of the platform, enhancing consumer utility and improving e-commerce conversion rates.

At scale, we see BEX as being a highly cash generative business, which (if funds are not being used to grow the business) will be able to maintain a high payout ratio, although we do not anticipate dividends in the medium term. At this stage we envisage BEX reaching a free cash flow breakeven position in FY23 (aided by the positive working capital benefit of the e-commerce business).

Figure 20: BikeExchange cash flow profile (including raise)

(In A\$m, unless otherwise stated)	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
PF EBITDA	(1.77)	(3.90)	(2.45)	(3.53)	(2.91)	(1.84)
Change in WC	(0.11)	0.72	1.80	1.54	2.44	3.20
CFO pre interest & tax	(1.88)	(3.18)	(0.65)	(2.00)	(0.47)	1.36
Net interest	(0.06)	(0.22)	(0.02)	(0.1)	0.0	0.0
Tax	-	-	-	-	-	-
Other OCF items	(0.90)	(0.09)	(0.24)	-	0.00	(0.00)
Cash flow from operations	(2.85)	(3.50)	(0.91)	(2.12)	(0.43)	1.38
Capex - PPE & Intangibles	(0.10)	(0.04)	(0.01)	(0.55)	(1.23)	(1.34)
Free Cash Flow	(2.95)	(3.53)	(0.92)	(2.67)	(1.66)	0.04
Net cashflow on disposal of inv/bus & acq	-	-	-	-	-	-
Proceeds on disposal of assets	-	0.01	0.21	-	-	-
Other investing cashflows	0.07	(0.12)	(0.03)	-	-	-
Cash flow post investing	(2.88)	(3.64)	(0.74)	(2.67)	(1.66)	0.04
Net equity issuance	5.78	0.35	-	19.06	-	-
Net proceeds/(repayments) of borrowings	0.49	4.18	1.05	(5.56)	-	-
Lease Payments	(0.27)	(0.14)	(0.45)	(0.48)	(0.49)	(0.51)
Dividends	-	-	-	-	-	-
Other financing cashflows	-	-	-	-	-	-
Total financing cashflows	6.00	4.38	0.60	13.02	(0.49)	(0.51)
Net cash flow	3.11	0.74	(0.13)	10.35	(2.15)	(0.47)

SOURCE: MORGANS RESEARCH, COMPANY

Balance Sheet

Post the IPO BEX is debt free with a net cash position of \$20.1m. The balance sheet post IPO is relatively clean and we believe it to accommodate BEX's growth aspirations (especially in light of the positive working capital model we outline above).

Figure 21: BikeExchange balance sheet (PF for IPO)

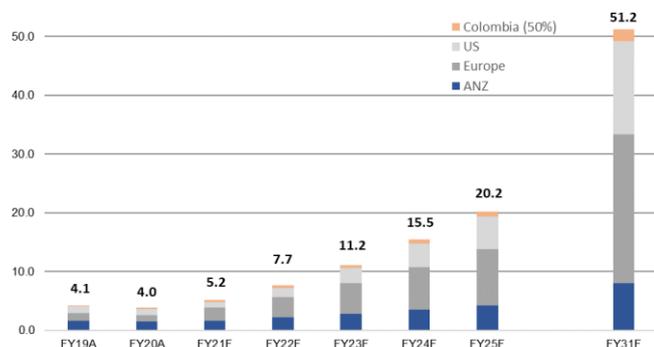
(In A\$m, unless otherwise stated)	FY20PF	FY21F	FY22F	FY23F
Cash & equivalents	20.1	17.0	14.8	14.3
Trade & other receivables	0.4	0.7	1.2	1.7
Financial/other assets	0.0	0.0	0.1	0.1
Total current assets	20.5	17.7	16.0	16.2
PP&E	0.3	0.3	0.3	0.4
Investments - JV	-	-	-	-
Other non-current assets	-	0.3	1.1	1.7
Total non-current assets	0.3	0.6	1.4	2.1
Total Assets	20.8	18.3	17.4	18.2
Trade & other payables	2.8	4.7	7.6	11.4
Lease Liabilities	0.1	0.1	0.1	0.1
Current borrowings	-	-	-	-
Provisions/other	0.2	0.2	0.2	0.2
Total current liabilities	3.1	5.0	7.8	11.6
Lease Liabilities	0.1	0.0	-	-
Non-current borrowing	-	-	-	-
Provisions/other	0.1	0.1	0.1	0.1
Total non-current liabilities	0.2	0.1	0.1	0.1
Total Liabilities	3.3	5.0	7.9	11.7
Total net assets	17.5	13.3	9.5	6.5
Contributed equity	45.5	45.5	45.5	45.5
Reserves	(11.9)	(14.9)	(18.3)	(20.8)
Accumulated losses	(16.1)	(17.3)	(17.7)	(18.1)
Total Equity	17.5	13.3	9.5	6.5

SOURCE: MORGANS RESEARCH, COMPANY

Long-term forecasts in context of market size

The graphs below depict our long-term revenue forecasts for BikeExchange out to our terminal year (FY31). We see the International operations dwarfing that of Australia in outer years, with e-commerce revenue also dominating the revenue profile (~69% of revenue contribution in FY31).

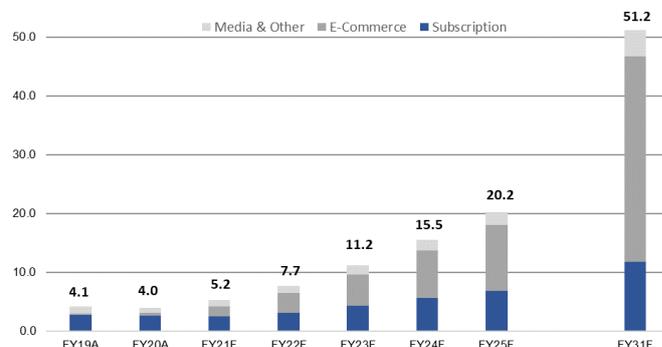
Figure 22: Revenue by geographic region (incl JV)



SOURCE: MORGANS RESEARCH, COMPANY

NOTE: Does not match P&L output pages given inclusion of 50% of Colombian JV rev

Figure 23: Revenue by source (incl JV)



SOURCE: MORGANS RESEARCH, COMPANY

NOTE: Does not match P&L output pages given inclusion of 50% of Colombian JV rev

Below we detail our long term TTV forecasts (for which e-commerce revenue is derived) in terms of the addressable market opportunity of bicycle and related product sales. To couch our forecasts we have grown the current total market opportunity by recent historic growth rates to FY26 and then step these down to FY31. We then take an approximate estimate of how much of these markets are addressable to BEX (noting that BEX is at present focussed on specialty retailers and brands, eg not the mass market).

Overall, our estimates imply a ~1.6% of the addressable market opportunity for BEX into FY31. Given we see upside to the ~10-30% general e-commerce penetration in BikeExchange's regions, we see this as inferring well under 5% of the e-commerce opportunity in these markets.

Figure 24: Long term TTV forecasts referenced to addressable market

	ANZ	Nth America (US, Can)	Euro (Ger, NL, Bel)	Combined
Mkt Estimate (local currency, m)	936	6,909	8,600	
Estimate year	FY20	2019	2019	
Assumed addressable by value (%)	60.0%	49.0%	65.0%	
Growth rate estimate (%)	0.7%	5.5%	3.0%	
FY26 add mkt estimate (A\$m)	584.4	6,655	11,334	18,573
FY26 TTV (A\$m)	26.5	43.8	74.8	145.1
% share of mkt	4.5%	0.7%	0.7%	0.8%
Gwth rate (post 2026)	0.7%	3.0%	2.5%	
FY31 mkt estimate (A\$m)	605	7,714	12,824	21,143
FY31 TTV (A\$m)	46.0	107.7	179.4	333.1
% share of mkt	7.6%	1.4%	1.4%	1.6%

SOURCE: MORGANS ESTIMATES, NUMEROUS SOURCES REFERENCED IN BEX PROSPECTUS

Valuation

We use a multifaceted valuation approach, with our valuation (and price target) derived from the outcome of an equally weighted 10-year DCF and multiples based approach.

Given the lack of truly comparable companies on the ASX ie companies who derive an almost equal portion of revenue from subscription and e-commerce enablement, we have split these two components of BEX's earnings base for our multiples based valuation.

To this end the non e-commerce revenue streams (subscription, media and other) we see as akin to that generated by the listed classifieds players on the ASX (see the comparables output for the list). We use an EV/Revenue multiple to value these revenue streams in the business.

For the e-commerce portion of the business, we use our favoured valuation metric of EV/GPAPA (gross profit after paid acquisition costs/marketing). To calculate GPAPA for the e-Commerce revenue stream, we attribute 50% of FY22 marketing expense to e-commerce (the other 50% attributable to the subscription portion of the business).

We believe this multiples valuation approach best represents the multi-faceted revenue streams of BEX, with the classifieds players earnings base, despite more and more going down the transactional path, still dominated by classifieds/advertising revenue, and the other domestic e-commerce players having little in the way of a more stable classifieds subscription revenue stream.

The outcome of this blended valuation approach is show below. Our diluted SOI takes into account the 9.1m options with a 26c strike price but not the 9.0m additional options with a 45c strike price.

Figure 25: BikeExchange blended valuation

Valuation Method	Value (A\$ ps)	Weighting	\$ per share
DCF	0.40	50.0%	0.20
Multiples	0.28	50.0%	0.14
Equity Value per share			0.34

SOURCE: MORGANS RESEARCH, COMPANY

Our DCF is derived via a 10-year explicit forecast period and a terminal value assumption. Key inputs into our DCF can be seen in the figure below. The beta of 1.30 takes into account the fledgling nature of BEX's e-commerce strategy and the company not yet being in an earnings or cash flow positive position.

Figure 26: BikeExchange discounted cash flow valuation

Year ended 30 June	2021	2022	2023	2024	2025	2026	2031	Modelling Assumptions
EBITDA (plus col JV)	(3.5)	(2.8)	(1.7)	0.3	2.7	5.8	19.3	Risk Free Rate 3.0%
WC Change	1.5	2.4	3.2	4.1	4.5	5.7	-	Equity Risk Premium 6.0%
Tax	-	-	-	-	-	-	(5.0)	Company Beta 1.30
Capex	(0.6)	(1.2)	(1.3)	(1.1)	(1.3)	(1.4)	(2.1)	Cost of Equity 10.8%
								Debt % 0%
Free Cash Flow	(2.5)	(1.6)	0.2	3.2	5.8	10.1	12.2	Cost of Debt 5%
Other adjustments	-	-	-	-	-	-	-	Tax Rate 28%
Free Cash Flow	(2.5)	(1.6)	0.2	3.2	5.8	10.1	12.2	WACC 10.8%
								Long Term growth rate 3.0%
Discount Factor	1.00	0.90	0.81	0.74	0.66	0.60	0.36	Implied TV Multiple 9.9
NPV of Free Cash Flow	(2.5)	(1.5)	0.1	2.4	3.9	6.0	4.4	Discounted Terminal Value 58
NPV of Terminal Value							58	NPV \$ 99
NPV							99	
Net (Debt) / Cash							20	
Total Present Value							122	
Shares Out							302	
NPV/Share							0.40	

SOURCE: MORGANS RESEARCH, COMPANY

As described, our multiples-based valuation is a blended EV/Revenue for non e-commerce revenue and EV/ GPAPA for FY22 for the e-commerce portion of the business.

We have pitched our multiples at a slight premium to the comparables set. Despite BEX being much smaller than most of these comparables and not producing a profit in the near term (on our forecasts), we do see the company as having a superior topline growth profile (~49% FY22 Revenue growth, 47% including Colombia vs ~20-24% average for the comparable set) a global opportunity set and coming from a much lower base, which we believe compensate for the size and lack of profitability of the company.

Figure 27: BikeExchange multiples-based valuation output

	FY22	Multiple	Comp Set (avg)	% diff to comps	EV
EV Rev					
Rev (ex E-Commerce)	4.3	8.75	8.1	7.8%	37.9
EV/GPAPA					
Ecommerce GPAPA	2.50	10.5	9.6	9.8%	26.3
Total EV	64.2				
Cash	20.2				
Total Equity Val	84.4				
Shares out	302.1				
Equity Value PS	0.28				

SOURCE: MORGANS RESEARCH, COMPANY

The comparable data set can be seen below:

Figure 28: BikeExchange listed comparable set – key valuation multiples

Ticker	Mkt Cap (A\$m)	Adj EV* (A\$m)	EV/GMS(V)			EV/Revenue (x)			EV/GM (x)			EV/GPAPA (x)			GPAPA Margin (%)			EV/EBITDA (x)			EBITDA margin (%)			PE (x)			Rev Growth			
			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY21	FY22		
Domestic listed e-Commerce plays																														
Kogan.com Ltd.	KGX-AU	1,491	1,536	2.0x	1.3x	3.1x	1.9x	1.7x	12.1x	6.9x	5.9x	15.5x	9.1x	7.3x	19.9%	21.1%	23.1%	33.0x	17.4x	15.1x	9.3%	11.1%	11.2%	46.1x	25.0x	23.2x	60%	14%		
Temple & Webster Group Ltd.	TPW-AU	1,167	1,144	6.5x	3.5x	6.5x	3.5x	2.6x	21.2x	9.6x	7.4x	34.8x	14.9x	11.6x	18.7%	23.3%	22.5%	134.6x	44.5x	33.7x	4.8%	7.8%	7.7%	76.6x	46.5x	40.0x	86%	34%		
Redbubble Ltd.	RBL-AU	1,655	1,719	3.6x	2.2x	4.1x	2.5x	2.3x	12.8x	7.2x	6.9x	18.9x	10.3x	9.7x	21.9%	24.1%	24.1%	230.0x	26.4x	24.0x	1.8%	9.5%	9.8%	-262.0x	31.1x	28.7x	65%	7%		
Booktopia Group Ltd.	BKG-AU	345	329	2.0x	1.5x	2.0x	1.5x	1.3x	7.6x	5.4x	4.5x	10.0x	6.6x	5.6x	19.9%	22.3%	22.9%	55.3x	23.9x	18.5x	3.6%	6.2%	6.9%	1019.9x	104.0x	50.9x	35%	15%		
MyDeal.com.au Ltd.	MYD-AU	247	216	2.1x	1.0x	13.7x	4.9x	3.5x	13.7x	5.9x	4.5x	29.9x	19.1x	13.1x	45.8%	25.7%	27.0%											179%	39%	
Adore Beauty Group Ltd.	ABY-AU	494	469	3.9x	2.5x	3.9x	2.5x	1.9x	12.0x	7.7x	6.3x	18.8x	12.3x	10.0x	20.6%	20.2%	19.4%	95.7x	61.4x	33.0x	4.0%	4.1%	5.9%	197.7x	92.3x	57.1x	55%	29%		
Average				3.3x	2.0x	5.5x	2.8x	2.2x	13.2x	7.1x	5.9x	21.3x	12.1x	9.6x	24.5%	22.8%	23.2%	109.7x	34.7x	24.9x	4.7%	7.7%	8.3%	215.6x	59.8x	40.0x	80%	23%		
Median				2.9x	1.8x	4.0x	2.5x	2.1x	12.5x	7.1x	6.1x	18.8x	11.3x	9.9x	20.3%	22.8%	23.0%	95.7x	26.4x	24.0x	4.0%	7.6%	7.7%	76.6x	46.5x	40.0x	63%	22%		
International e-Commerce																														
Amazon.com, Inc.	AMZN-US	2,069,474	2,069,407	3.1x	2.4x	4.2x	3.4x	2.9x	10.5x	8.3x	7.0x	12.2x	9.8x	8.1x	33.9%	34.6%	35.4%	28.2x	22.7x	17.9x	14.7%	14.9%	16.0%	73.9x	64.6x	46.6x	23%	18%		
Alibaba Group Holding Ltd.	9988-HK	800,186	729,024	0.6x	0.5x	5.2x	4.0x	3.3x	17.8x	12.0x	9.3x	22.8x	15.9x	12.2x	22.7%	25.0%	26.8%	17.5x	14.2x	11.5x	29.6%	27.9%	28.5%	22.0x	19.0x	15.4x	31%	21%		
JD.com, Inc. Class A	9618-HK	171,031	150,108	0.3x	0.3x	1.0x	0.8x	0.7x	6.9x	5.4x	4.4x	9.1x	7.1x	5.7x	11.1%	11.4%	11.8%	39.7x	30.3x	20.3x	2.6%	2.7%	3.3%	51.4x	39.2x	27.7x	24%	20%		
Etsy, Inc.	ETSY-US	43,037	42,277	3.2x	2.6x	19.0x	15.2x	12.7x	26.0x	20.4x	17.0x	43.1x	34.0x	27.8x	44.0%	44.6%	45.8%	59.6x	50.8x	41.2x	31.8%	29.9%	30.9%	82.2x	73.8x	58.9x	25%	19%		
eBay Inc.	EBAY-US	50,864	55,948	0.4x	0.4x	4.2x	3.6x	3.4x	5.5x	4.8x	4.5x	8.3x	7.3x	6.7x	51.1%	49.7%	50.4%	11.3x	10.4x	9.6x	37.2%	35.0%	35.4%	16.4x	13.7x	12.1x	16%	7%		
RealReal, Inc.	REAL-US	2,854	2,612	2.0x	1.5x	6.8x	4.7x	3.7x	10.9x	7.5x	5.7x	15.2x	9.7x	7.2x	44.5%	48.6%	51.0%	-15.6x	-19.6x	-34.2x	-43.5%	-24.0%	-10.7%				44%	29%		
Farfetch Limited Class A	FTCH-US	28,773	27,348	6.6x	5.1x	12.7x	9.6x	7.5x	27.5x	20.6x	15.9x	37.0x	28.9x	23.8x	34.2%	33.1%	31.4%	-446.5x	688.7x	121.9x	-2.8%	1.4%	6.1%				32%	28%		
Wayfair, Inc. Class A	W-US	45,876	47,235	2.6x	2.3x	2.6x	2.3x	1.9x	8.9x	8.4x	6.9x	13.5x	14.1x	11.4x	19.2%	16.3%	16.7%	38.7x	48.9x	33.0x	6.7%	4.7%	5.8%	62.8x	123.0x	61.1x	12%	21%		
Average				2.5x	2.0x	6.9x	5.4x	4.5x	14.2x	10.9x	8.8x	20.2x	15.8x	12.9x	32.6%	32.9%	33.7%	-33.4x	105.8x	27.6x	9.5%	11.6%	14.4%	51.4x	55.6x	37.0x	26%	20%		
Median				2.3x	1.9x	4.7x	3.8x	3.3x	10.7x	8.4x	6.9x	14.4x	11.9x	9.8x	34.0%	33.9%	33.4%	22.8x	26.5x	19.1x	10.7%	9.8%	11.1%	57.1x	51.9x	37.1x	25%	21%		
Domestic Internet Media Stocks																														
Carsales.com Limited	CAR-AU	4,555	4,919			12.4x	11.4x	9.5x										24.1x	20.3x	17.1x	51.7%	56.0%	55.9%	39.4x	31.8x	26.2x	9%	19%		
REA Group Ltd	REA-AU	17,831	17,630			21.6x	19.5x	15.9x										37.1x	31.4x	25.8x	58.3%	62.0%	61.6%	65.3x	51.6x	40.6x	11%	22%		
Domain Holdings Australia Ltd.	DHG-AU	2,615	2,727			10.4x	9.3x	7.7x										32.3x	26.1x	21.0x	32.3%	35.6%	36.7%	121.2x	71.4x	50.1x	13%	20%		
Seek Limited	SEK-AU	9,674	10,575			6.7x	6.2x	5.4x										25.5x	22.0x	17.9x	26.3%	28.2%	29.9%	106.9x	83.2x	53.2x	8%	15%		
Frontier Digital Ventures Ltd.	FDV-AU	470	409			19.6x	7.4x	5.8x																			-726.0x	165%	28%	
iCar Asia Ltd.	ICQ-AU	128	131			9.2x	6.0x	4.4x																					53%	37%
Average						13.3x	10.0x	8.1x										29.7x	24.9x	60.5x	42.1%	45.4%	32.3%	83.2x	59.5x	-111.2x	43%	24%		
Median						11.4x	8.3x	6.8x										28.9x	24.0x	23.4x	42.0%	45.8%	33.3%	86.1x	61.5x	40.6x	12%	21%		
BikeExchange Ltd	BEX-AU	77	57			14.4x	10.9x	7.4x	15.5x	11.7x	7.9x	17.2x	15.8x	10.2x	83.6%	69.3%	73.1%	-22.8x	-16.2x	-20.0x	-63.1%	-67.5%	-37.1%				32%	47%		

* Adjusted EV adds net debt plus trade creditors minus debtors
Note: These multiples are based on company year ends and are not calendarised

SOURCE: MORGANS RESEARCH, COMPANY

Key risks / potential investor concerns

- **BikeExchange is very early in their journey to evolve as an e-commerce player** – whilst recent growth rates in BEX’s e-commerce product offering are supportive of the strategy, it must be stated that the strategy to become a more holistic e-commerce provider is in its infancy, likely inhibiting accuracy in the ability to forecast this revenue stream.
- **Retailer subscriber growth may disappoint** – BEX’s retailer subscriber numbers went backwards in the period from 2018 to 2020 as the company looked to improve the quality of retail subscribers and move towards subscribers with the propensity to adopt the e-commerce solution. We anticipate good growth in retailer subscriber numbers in the forecast period and to the extent this may not eventuate this poses a risk to both subscription revenues and e-commerce transactions.
- **Reliance on third party technology providers** – BEX does not own the platform for which it operates upon, licensing this technology from Marketplacer. Given the performance, reliability and availability of the platform are integral to BEX’s operations, any development that hinders Marketplacer’s ability to maintain adequate service in this regard will severely impact BEX. The other risk associated with BEX not owning their platform technology stack is the risk of obsolescence or the product development roadmap of BEX and Marketplacer not aligning, hence frustrating BEX’s ability to release new products or feature sets it may deem integral to the strategic direction of the company. We believe this is mitigated to an extent by the current agreement which allows BEX to terminate the arrangement if a more attractive alternative platform provider can be found. To this end the BEX infrastructure is ‘headless’ in that the front end architecture (including the BikeExchange App for which BEX has developed) is able to be separated from the backend platform.
- **Competition** – Our competition analysis suggests the nature of competition that BEX faces is fragmented, with no one dominant player. Whilst this can be seen as an advantage for a global model such as BEX, it also does not preclude a more well-funded player from emerging. To this end BEX also faces potential competitive pressure from the likes of the global marketplaces (Ebay, Amazon etc) who provide e-commerce facilitation for bike retailers and brand owners.
- **Structural decline of specialty retailers** – The BEX strategy at present is to back the more independent specialty cycle retailers (rather than mass market and outdoor product retailers). BEX therefore faces the risk that these retailers themselves lose market share to these players.
- **Ability to cycle Covid induced move to online/e-commerce and generally positive impact of Covid on cycle retailing** – the impact of Covid lockdowns throughout the world (including BEX’s operating geographies) that have provided a tailwind for e-commerce players, is well known. In addition, the cycle retailing industry has received an additional boost from Covid given the increase in leisure and exercise cycling, coupled with the increased use of cycles for commuting given a desire to avoid public transport. Whilst these factors have seen strong growth in the cycle industry, we believe BEX specifically is well placed to cycle (pardon the pun) this benefit given the subscription nature of a large part of BEX’s revenue base at present, the fledgling nature of their e-commerce offering and their geographically diverse operations base.
- **IT, platform and security risks** – any cyber security or other form of data breach etc could result in reputational damage to BEX. In this regard BEX takes the usual measures expected including firewalls, cybersecurity and anti-virus software.
- **Geographic expansion or acquisition risks** – BEX may look to expand operations into new geographic territories that may entail new risks (political, market etc) and may prove a drain on company resources if not successful.

In a similar vein potential acquisitions may not live up to their original investment case.

- **Key personnel risk** – with a global workforce numbering only 40 (as at the date of the prospectus, up around 50 at present) the potential for personnel losses to materially impact operational performance is heightened. BEX is currently expanding their team to reduce reliance on certain key personnel, adding expertise in areas such as consumer/user experience and sales.
- **General market risk given BEX not profitable at present** – given we do not anticipate BEX making a profit in the near term, general market risk is elevated if a share market downturn causes investors to shy away from loss making companies.

Board and management

The table below provides a brief bio on the board and key management personnel. BikeExchange has been run by professional management for over 3 years, when current CEO Mark Watkin joined the group. His appointment was followed by that of former Carsales CFO (CAR-ASX) Andrew Demery in August 2020. Founder Sam Salter remains on the Board, thus enabling a corporate memory from the start-up days.

BikeExchange Chair Gregg Taylor would be well known to some in the market, being the current Co-CIO of funds management firm Bombora Investment Management.

Given the large share ownership of the majority of Board members (including both deemed independents Gregg Taylor and Bryan Zekulich via their representation of the Bombora stake, refer Figure 29 below) the board appears to lack true independence. Although we are not opposed to Board ownership stakes and realise the alignment of shareholder interests that come into play, we would be looking for BikeExchange to add independent directors to the Board in the future.

Figure 29: BikeExchange Board of Directors and Key Management Personnel

Director	Position	Background
Gregg Taylor	Ind Non-Exec Chairman	Currently Co-CIO of Bombora Investment Management, a boutique investment house. 20yrs experience in financial markets, tech, sports admin, media and retail. Current NED of Acrow (ACF-ASX) and unlisted Marketplacer.
Sam Salter	NED	Co-founder of BikeExchange and tech provider Marketplacer. Over 13yrs experience in marketplace development
Andrew Ryan	NED	Career spanning numerous industries incl manufacturing, distribution, ag, hospitality, sport and tourism. Current MD of the Prince Hotel St Kilda and prev marketing director at Jayco. Director of numerous hospitality enterprises, Marketplacer and the Mitchelton-SCOTT professional cycling team.
Jade Wyatt	NED	Specialty retail background. Long term employee of The Just Group, currently acting CEO of Portmans and the Group Apparel Executive for Jay Jays, Just Jeans and Portmans.
Bryan Zekulich	Ind NED	Current PM at Bombora IM. Accounting background. Was managing partner for EY's PE sector for over 15yrs. Current board member, treasurer and co sec of the Aust Investment Council (formerly AVCAL).
Key Management Personnel		
Mark Watkin	Global CEO	Over 20yrs experience in marketing in the UK and Aust. Has previously been MD of TBWA Melbourne and BWM Dentsu Melbourne
Andrew Demery	CFO	20yrs of listed company experience in Aust and the UK including 5yrs at Carsales (CAR-ASX) finishing up as CFO in Oct'19. Prior to this was a Senior Manager at PWC

SOURCE: MORGANS RESEARCH, COMPANY

Figure 30: BikeExchange Director ownership

Director	Role	Shares post IPO (m)	% ownership	Shares represented (m)	% represented
Gregg Taylor	Ind Non-Exec Chairma	-	0.0%	24.44	8.3%
Sam Salter	NED	30.1	10.3%	30.12	10.3%
Andrew Ryan	NED	50.4	17.2%	50.45	17.2%
Jade Wyatt	NED	30.1	10.3%	30.12	10.3%
Bryan Zekulich	Ind NED	0.5	0.2%	0.47	0.2%
Total Director Ownership		111.2	37.9%	135.59	46.3%

SOURCE: MORGANS RESEARCH, COMPANY

In addition to the above there exists an additional 18.1m (5.8% of SOI) in options (9.1m with a 26c strike price and 9.0m with a 45c strike price) held by the board and staff. At present we only include the 9.1m options with a 26c strike price in our diluted share count.

Queensland		New South Wales		Victoria		Western Australia	
Brisbane	+61 7 3334 4888	Sydney	+61 2 9043 7900	Melbourne	+61 3 9947 4111	West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677	Sydney: Grosvenor	+61 2 8215 5000	Brighton	+61 3 9519 3555	Perth	+61 8 6462 1999
Brisbane: Tynan	+61 7 3152 0600	Place		Camberwell	+61 3 9813 2945		
Partners		Sydney: Reynolds	+61 2 9373 4452	Domain	+61 3 9066 3200	South Australia	
Brisbane: North Quay	+61 7 3245 5466	Securities		Geelong	+61 3 5222 5128	Adelaide	+61 8 8464 5000
Bundaberg	+61 7 4153 1050	Sydney: Currency	+61 2 8216 5111	Richmond	+61 3 9916 4000	Exchange Place	+61 8 7325 9200
Cairns	+61 7 4222 0555	House		South Yarra	+61 3 8762 1400	Norwood	+61 8 8461 2800
Caloundra	+61 7 5491 5422	Armidale	+61 2 6770 3300	Southbank	+61 3 9037 9444	Unley	+61 8 8155 4300
Gladstone	+61 7 4972 8000	Ballina	+61 2 6686 4144	Traralgon	+61 3 5176 6055		
Gold Coast	+61 7 5581 5777	Balmain	+61 2 8755 3333	Warmambool	+61 3 5559 1500		
Holland Park	+61 7 3151 8300	Bowral	+61 2 4851 5555				
Ipswich/Springfield	+61 7 3202 3995	Chatswood	+61 2 8116 1700	Australian Capital Territory			
Kedron	+61 7 3350 9000	Coffs Harbour	+61 2 6651 5700	Canberra	+61 2 6232 4999		
Mackay	+61 7 4957 3033	Gosford	+61 2 4325 0884				
Milton	+61 7 3114 8600	Hurstville	+61 2 8215 5079	Northern Territory			
Newstead	+61 7 3151 4151	Merimbula	+61 2 6495 2869	Darwin	+61 8 8981 9555		
Noosa	+61 7 5449 9511	Mona Vale	+61 2 9998 4200				
Redcliffe	+61 7 3897 3999	Neutral Bay	+61 2 8969 7500	Tasmania			
Rockhampton	+61 7 4922 5855	Newcastle	+61 2 4926 4044	Hobart	+61 3 6236 9000		
Spring Hill	+61 7 3833 9333	Orange	+61 2 6361 9166				
Sunshine Coast	+61 7 5479 2757	Port Macquarie	+61 2 6583 1735				
Toowoomba	+61 7 4639 1277	Scone	+61 2 6544 3144				
Townsville	+61 7 4725 5787	Wollongong	+61 2 4227 3022				

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Analyst owns shares in the following mentioned company(ies): N/A

Morgans Corporate Limited was Lead Manager and Underwriter to the Initial Public Offer of shares in BikeExchange Limited in December 2020 and received fees in this regard.

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